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C O L O M B I A

BUSINESS LINKAGES IN THE GARMENT INDUSTRY

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COLOMBIA

BUSINESS LINKAGES IN THE GARMENT INDUSTRY

(TC-01-06-00-4-CO)

DONORS MEMORANDUM

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CONTENTS

EXECUTIVE SUMMARY

I.	ELIGIBILITY OF THE COUNTRY AND PROJECT	1
II.	REFERENCE FRAMEWORK	1
	A. Market and demand for Colombian garments abroad.....	1
	B. The garment industry in the coffee belt: Caldas, Risaralda and Quindío.....	2
	C. Training and employment in the garment industry	3
	D. Experiences of links between SMEs and larger garment manufacturers	4
	E. Project strategy	4
III.	PROGRAM OBJECTIVES AND COMPONENTS	6
	A. Objectives	6
	B. Components.....	6
	1. Component I: Development of labor skills.....	6
	2. Component II : Production advice for SME garment manufacturers.....	7
	3. Component III. Strategic and commercial linkage of garment manufacturers.....	8
IV.	PROGRAM EXECUTION	10
	A. Executing agency	10
	B. Implementation mechanism.....	11
	C. Execution and disbursement periods.....	12
	D. Accountancy and audit.....	12
V.	COSTS AND FINANCING	13
	A. Costs	13
	B. Financial sustainability	13
VI.	JUSTIFICATION, BENEFITS AND RISKS OF THE PROJECT	14
	A. Project benefits and impact.....	14
	B. Beneficiaries	15
	C. Risks	15
	D. Committee on Environment and Social Impact.....	16
VII.	PROJECT MONITORING AND EVALUATION.....	16

VIII. SPECIAL CONTRACTUAL CONDITIONS	17
A. Conditions precedent to disbursement	17
B. Status of project preparation	17

ANNEXES

Annex I Logical framework

INFORMATION AVAILABLE IN THE SDS/MSM TECHNICAL FILES

PREPARATION:

Technical file

Operating regulations

EXECUTION:

Approved project profile

UMD funding request

Memorandum of eligibility

Statutes of Universidad Minuto de Dios

ABBREVIATIONS

ACF	Alianza Cosiendo el Futuro
ACOPI	Asociación Colombiana de Pequeñas y Medianas Empresas [Colombian Association of Small and Medium-Sized Businesses]
ANDI	National Association of Industrialists
ATPA	Andean Trade Preferences Agreement
CBI	Caribbean Basin Initiative
CESI	Committee on Environment and Social Impact
DNP	National Planning Department
FNC	National Federation of Coffee Growers
FOREC	Coffee-Belt Rural Reconstruction Fund
FTAA	Free Trade Agreement of the Americas
JDP	Project directing board
MCC	Mondragón Corporación Corporativa
SENA	Servicio Nacional de Aprendizaje [National Training Service]
SME	Small and medium-sized enterprise
UMD	University Corporation “Minuto de Dios”

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EXECUTIVE SUMMARY

Executing agency:	University Corporation “Minuto de Dios” (UMD)
Benefits and Beneficiaries:	The main beneficiaries of this project are microenterprises and small and medium-sized garment-making businesses located in the departments of Caldas, Risaralda and Quindío. The project is expected to directly benefit 3,000 people, mostly unemployed, who would be trained as garment-making operatives; and a further 1,000, most already with links to the sector, who will become trainers, supervisors or middle managers. The project is also expected to benefit 50 small and medium-sized enterprises (SMEs) by providing productive and strategic advisory services and support in forging links with other firms in the sector.
Amount and source:	MIF: Non-reimbursable (Window III): US\$1,100,000 Local counterpart: US\$ 750,000 Total: US\$1,850,000
Terms:	Execution period: 36 months Disbursement period: 42 months
Objectives:	The project’s general objective is to encourage investments in the clothing industry located in Colombia’s coffee belt, by improving the productivity of human resources and increasing commercial linkages between clothing manufacturers that achieve international standards. The specific objective of the project is to set up a coordinated and sustainable process for providing training and technical assistance for garment workers and firms in the country’s coffee belt.
Description:	The strategy of this IDB-MIF project is to catalyze investments in the sector by increasing and enhancing the supply of garment workers, training trainers specializing in this sector, and adapting training to sectoral needs. It will also promote commercial links with larger firms, together with the standardization of productive processes and an increase in productivity and profit margins.

Special contractual clauses:

As conditions precedent to the first disbursement, the UMD will present to the Bank's satisfaction: (i) a work plan for activities in the first year of the project, including six-monthly quantitative and qualitative performance targets, and assumptions for their fulfillment; and (ii) evidence of having set up the project's coordinating unit.

Environmental and social review:

The Committee on Environment and Social Impact (CESI) reviewed and approved the project proposal at its meeting on 11 January 2002. In response to CESI suggestions, the project's Operating Regulations establish that: (i) all training and technical assistance actions will promote activities and production techniques that are socially and environmentally sustainable (see paragraph 3.6); (ii) for existing firms and those to be created in the future, workplace design will take the health of workers into account and provide them with a comfortable working environment (see paragraph 3.6); and (iii) the coordinating unit will conduct an open and competitive process for selecting beneficiaries and trainers, encouraging participation by female beneficiaries or enterprises run by women (see paragraph 3.6).

I. ELIGIBILITY OF THE COUNTRY AND PROJECT

- 1.1 Colombia is eligible for all financing modalities envisaged by the Multilateral Investment Fund (MIF). This operation is eligible for MIF funding under the Small Business Development Facility (III-A), since it will help integrate Colombia's micro and small garment-making businesses into the formal domestic and international clothing industry. The project was also declared eligible by the MIF Operations Programming Committee on 26 July 2001.

II. REFERENCE FRAMEWORK

A. Market and demand for Colombian garments abroad

- 2.1 According to the most recent economic census conducted in 1990, the Colombian apparel sector consists of 20,000 factories that generate 240,000 direct jobs, or 13.3% of all manufacturing employment. Despite the economic crisis, the sector is considered to have strong potential, based on its accumulated know-how, the growing presence of several Colombian firms in international markets, and the productivity increase achieved during the past decade.¹ Accordingly, garment manufacture displays potential as a source of new exports and stable employment for the future.
- 2.2 Data from Colombia's export promotion office (Proexport) show that textile and garment exports earned US\$788 million in 2000—up by 20% compared to the previous year. The most important markets for Colombian products are the United States (49%), Latin America (40%) and Europe (11%). Despite its export expansion, Colombia is not in a position to compete in the United States market with simple maquila products, where value-added is small, and it does not enjoy tariff advantages or the lower labor costs of several countries covered by the Caribbean Basin Initiative (CBI).² Colombian clothing products are distinguished from those of CBI countries as they tend to be more highly processed items, such as blue jeans, women's dresses, baby clothes and underwear. Garments of this type are of higher value-added and more costly to produce; and they require more highly skilled labor.
- 2.3 The United States absorbs 49% of Colombian apparel exports and offers the greatest opportunity for growth. Its imports of garments from Colombia account for just 1% of the total it imports worldwide. The strategy of Colombia's Ministry of Industry is to double this figure over the next five years, thereby generating about

¹ Survey conducted by *Alianza Cosiendo el Futuro*; full survey data can be found in the technical file.

² Countries covered by the Caribbean Basin Initiative can export their apparel products to the United States free of tariffs, provided the original cloth comes from the United States.

US\$800 million in additional foreign exchange earnings. Despite the 2001 economic slowdown, export prospects for Colombian garments are positive. In the short run, a lowering of tariffs between Colombia and the United States is expected as a result of the Andean Trade Preferences Agreement (ATPA)³ being extended to cover clothing products. This could give the apparel sector renewed impetus, especially in Colombia, Peru and Ecuador. Moreover, when the Free Trade Agreement of the Americas (FTAA) comes into force, Colombia would face the same conditions as those enjoyed by CBI countries today, thereby improving the prospects for clothing exports from Colombia to the United States.

- 2.4 For Colombia to be able to develop its potential, take advantage of these opportunities and achieve the desired targets, it needs to develop a sectoral strategy that includes modernization of production processes, marketing and labor training, while also encouraging investments and promoting synergies that enhance the commercial positioning of firms operating in the sector.

B. The garment industry in the coffee belt: Caldas, Risaralda and Quindío

- 2.5 The departments of Caldas, Risaralda and Quindío⁴ contain some 1,400 clothing manufacturers, representing approximately 20% of all firms and jobs in this sector in Colombia. This concentration of firms makes the coffee belt one of the country's most important textile and garment-manufacturing clusters. According to a recent survey, 95% of garment makers in the area are in the microenterprise or small and medium-sized business⁵ (SME) category: 59% are microenterprises, 19% are small businesses, 17% are medium-sized enterprises and the remaining 5% are large firms. The largest garment manufacturers have direct contact with the North American market, to which they sell high value-added clothing. Most microenterprises and SMEs are geared to providing garment-making services of differing levels of value-added, for larger manufacturers or intermediaries (brokers) who then market the products domestically or internationally.
- 2.6 Despite growth prospects in this sector, annual increases in clothing exports⁶ since 1997 have been accompanied by steadily shrinking business profits. This has caused a progressive decline in investment. Employers blame this situation mainly on the indirect costs of absorbing employment (training and social charges), and a lack of labor flexibility that reduces the possibility of responding to demand fluctuations.

³ This tariff agreement with member countries of the Andean Pact could be extended to garments. At the present time, Colombian exports are tariff-free in the United States if the raw material is of United States origin.

⁴ This geographic area hereinafter is referred to as the coffee belt; it is a region historically associated with coffee-growing, but whose economy has since diversified.

⁵ Under Colombian law, the microenterprise and SME concept encompasses firms with up to 200 employees and fixed assets below US\$750,000.

⁶ According to figures from the Superintendency of Corporations.

- 2.7 Possible ways to **improve profitability and encourage investment** in the sector include: (i) raising the productivity of new and existing workers; (ii) improving relations with markets; (iii) lowering labor absorption costs; and (iv) achieving more flexible production through outsourcing. The two last-mentioned channels have been successfully trialled by entrepreneurs who subcontract part of their production to SMEs rather than take on more workers. Such strategies are also an appropriate response to industry trends giving preference to small-volume orders with frequently changing specifications and tight delivery deadlines.

C. Training and employment in the garment industry

- 2.8 **Performance standards.** SMEs in the clothing sector essentially provide garment-manufacturing services, with contracts negotiated in terms of the time needed to produce the order under ideal conditions, i.e. with 100% efficiency according to international standards.⁷ To be profitable, the efficiencies derived from additional costs (mainly labor and machinery) must be greater than the costs incurred to achieve such efficiencies.
- 2.9 Given conditions relating to raw materials prices, available machinery and payroll costs in terms of taxation and transport, the garment sector in Colombia is only profitable if it operates at over 60% efficiency. This determines the minimum level required of workers in Colombian firms. According to employers questioned, a worker without suitable training might need three to four years' on-the-job experience to achieve an efficiency level between 60% and 70%.
- 2.10 **Lack of skilled operatives.** In the coffee belt, training needs are aggravated by a high rate of labor turnover resulting in a continuous inflow of new, less efficient and less skilled workers. Medium-sized and large firms frequently train their own labor force, but their lack of knowledge of training models means that time devoted to on-site training is excessive. Frequently, 24 weeks' training are needed to obtain the same results that could be achieved on nine-week courses at suitable training institutes. In general, training is seen as one more cause of shrinking profit margins, rather than a source of future benefits.
- 2.11 MD Confecciones is a training institute which, like the university corporation Minuto de Dios, belongs to Corporación Minuto de Dios. The institute has begun to train and supply skilled labor to the garment sector in the area, in conjunction with the National Training Service (SENA). Several firms established in the sector have reached agreements with training institutes, in which they supply labor and instructors, in exchange for access to entire graduating classes to cover their labor needs. In many cases, however, operatives trained by MD Confecciones are being put into jobs with below 60% efficiency. Moreover, the time taken to reach this

⁷ To gain an idea of how to evaluate the efficiency of a given operative using a given machine, output can be measured in terms of quality, time, errors, etc., and then compared against the ideal standard.

level is considered excessive. High rates of labor turnover among course graduates points to weaknesses in the selection process. For all of these reasons, actions are needed to improve the selection and training process.

- 2.12 **Lack of managerial training.** Besides traditional direct labor training, middle-ranking technical staff and enterprise management also need to be trained. Middle-ranking technicians are responsible for maintaining and improving productivity and quality. Management, meanwhile, is responsible for the productive development of the firms, and for linking such development to commercial strategies to diversify products, gain new clients and expand sales.

D. Experiences of links between SMEs and larger garment manufacturers

- 2.13 **Outsourcing and its requirements.** Larger clothing manufacturers that deal directly with international clients, mainly in the United States, habitually outsource up to 30% of their production to smaller firms, thereby making their own production more flexible. The subcontracted SMEs have to satisfy the requirements of the international clients concerned, which normally focus on two general areas: (i) quality; and (ii) worker health and safety, and respect for labor hiring laws (especially relating to minimum working age), which favors outsourcing. The most successful experiences of subcontracting involve a form of SME “sponsorship” that includes significant know-how transfer and delegation of responsibilities in satisfying order requirements and specifications. Given the tradition of eschewing written contracts, trust and compliance from the outset are essential ingredients in outsourcing.
- 2.14 In the coffee belt, the practice of outsourcing is encouraging new firms to set up or become formally established, in order take advantage of the corresponding business opportunities. These SMEs, some of which are worker-owned enterprises, and cooperatives, mostly provide maquila services,⁸ but some have developed to produce the complete package. Making these new firms viable also requires staff training at all levels, along with standardization of processes to enable them to take on new stages of production.

E. Project strategy

- 2.15 **Alianza Cosiendo el Futuro.** Garment manufacturers in the coffee belt, along with public bodies working to consolidate and encourage stable job creation in the apparel industry, are aware of the need to improve productivity, business profits, sales volumes and quality. In July 1999 the Alianza Cosiendo el Futuro - ACF (literally the “Sewing the Future Alliance”) was created for this purpose. The Alliance encompasses three ministries (foreign trade, labor and development), the

⁸ Maquila services generally include sewing together pieces of cloth that are delivered to them already cut; but maquila can also include other variants, such as cutting, pressing, finishing, etc.

National Planning Department (DNP), the Colombian Association of Small and Medium-Sized Businesses (ACOPI), the Coffee Belt Rural Reconstruction Fund (FOREC), the National Association of Industrialists (ANDI), and the National Federation of Coffee Growers (FNC), together with chambers of commerce, the main garment producing industries, and the region's universities and research centers. Each of these bodies contributes with financial, human, technical or logistic resources. The current membership of ACF, which includes the 26 most important garment manufacturers in the area, can be consulted in the technical file. The Corporación Universitaria Minuto de Dios (UMD) acts as ACF technical secretariat.

- 2.16 The overall ACF program consists of rebuilding the area's social fabric and providing members of the community decent employment with fair pay, in a context of quality, competitiveness and productivity, and on a sustainable basis. An additional ACF goal is to consolidate the apparel and textile sector and attract partners to set up at least 10 new garment-making SMEs employing an average of 120 operatives and 15 administrative staff each. For this purpose, ACF is receiving technical assistance from consultants associated with Mondragón Corporación Corporativa (MCC), financed by the FNC. These new SMEs will operate under a worker-ownership and cooperative framework. In some cases they will use their own machinery, while in others they may rent installations from larger ACF firms under the second and third shift arrangement, which is a frequent practice in garment-making clusters in several countries.
- 2.17 **Project strategy.** The strategy of this project does not involve using IDB-MIF funds to set these new firms up, but to strengthen microenterprises and small and medium-sized garment-manufacturing businesses located in the region. These may either be created or promoted by ACF, or result from the consolidation or merger of a number of small workshops, or may simply be firms already operating in the sector.
- 2.18 Within the general ACF framework, the strategy of this IDB-MIF project is to catalyze investments in the sector by expanding and improving the supply of garment-manufacturing workers, training trainers with specialization in the sector, adapting training to sectoral needs, promoting commercial links with larger firms, standardizing productive processes, and improving productivity and profit margins. MIF has approved, and now has in its project portfolio, a critical mass of operations with a business linkage focus. Analysis of these operations as a group is expected to reveal best practices likely to be useful for the proposed project during its execution stage.

III. PROGRAM OBJECTIVES AND COMPONENTS

A. Objectives

- 3.1 The general objective of this project is to encourage investments in the apparel sector located in Colombia's coffee belt, by improving the productivity of human resources and increasing commercial linkages between garment manufacturers that attain international standards.
- 3.2 The project's specific objective is to establish a coordinated and sustainable process for providing training and technical assistance services for workers and firms in the garment industry operating in the country's coffee belt.

B. Components

- 3.3 The project has the following components: (i) development of labor skills; (ii) production advice; (iii) strategic and commercial linkage between garment-manufacturing firms.

1. Component I: Development of labor skills (MIF US\$686,000; counterpart US\$680,000)

- 3.4 The objective of this component is to train skilled staff to meet the demands of the clothing industry, and to enable participating firms to attain 60%-70% efficiency levels within nine weeks. The component will train 3,000 operatives and 1,000 supervisors, implementing the following activities:
- 3.5 **Curriculum and training model development.** UMD will contract a local or international consulting firm, with expertise in training in the apparel sector, to review and evaluate methodologies used by the UMD, SENA, other training institutes, and ACF garment manufacturers. This consulting firm will develop a curriculum to train trainers, operatives, supervisors and technical staff, based on: (i) the needs of the apparel sector in the coffee belt; (ii) methodologies that have worked locally; and (iii) methodologies used by international garment-manufacturers. The curriculum will be modular, so that it can be adapted to the specific needs of clothing manufacturers with different training requirements. The chosen consulting firm will ensure consistency between the training curriculum and the quality and productivity standards for SME garment makers, to be defined in component II (paragraph 3.9). For this purpose, the training curriculum and SME standards will be defined simultaneously and/or by the same consulting firm.
- 3.6 **Dissemination of selection model and implementation of training.** Once the training curriculum has been defined, the following activities will be undertaken: (i) **selection of trainers and operatives.** This activity will seek to develop formats and guidelines to enable garment manufacturers in the coffee belt to select suitable

candidates for employment, and achieve high retention rates among production staff; (ii) **training of trainers and supervisors**. The consulting firm hired will also be responsible for selecting and training project trainers. Participating trainers and supervisors will have the capacity to plan and implement retraining processes for operatives, replicating the project's training technology in the three major coffee-belt cities. **1,000 trainers and supervisors will be trained**. In order to validate the new curriculum, MIF funds will be used to subsidize training expenses; (iii) **training of operatives**. This activity will train **3,000 skilled operatives** with a view to increasing productivity in the firms they are attached to; and (iv) **adaptation of workshops**. Initially UMD will have available six classroom-workshops and 150 sewing machines. Drawing on counterpart funding, UMD will provide an additional 210 machines, and will adapt the six classroom-workshops for training installations. These activities will comply with recommendations made by the Committee on Environment and Social Impact (CESI), as detailed in paragraph 6.11 and included in the operating regulations.

- 3.7 **Labor linkages.** Once operatives from the first group of beneficiaries have been trained, and then permanently throughout the project, UMD will assist trained but currently unemployed operatives to find work with garment-manufacturing firms. It is anticipated that 2,200 operatives trained by the project will attain efficiency levels above 60%. Clothing manufacturers in the coffee belt are therefore expected to find it profitable to hire these workers in order to increase their productivity, as has been indicated by ACF firms. The coordinating unit will maintain frequent contact with these companies to encourage them to hire new operatives based on enhanced efficiency.

2. Component II : Production advice for SME garment manufacturers (MIF US\$260,000; counterpart US\$48,000)

- 3.8 This component aims to optimize SME garment-manufacturing processes, develop market strategies and take advantage of logistic synergies. The component will strengthen both new SMEs promoted by ACF and those already existing or created independently. To be eligible for participation, operatives, technical staff and supervisors in the firms to be standardized need to have participated in the labor skill development program. As many as 50 SMEs are expected to benefit from the activities in this component, which are detailed below.
- 3.9 **Definition of SME garment-making standards.** Simultaneously with defining the curriculum and training methodology (component I, paragraph 3.6), the same **international consulting firm** will also develop methodologies for: (i) definition of standards and target performance indicators (efficiency, sales, percentage of overheads, etc.); (ii) fine-tuning of workshops' productive and commercial strategies based on specific business plans; and (iii) implementation and monitoring of strategies. Subsequently, the coordinating unit will furnish participating firms

with a register of skilled consultants that will help **30 participant SMEs** implement this methodology.

- 3.10 **SME strategy definition.** Based on strategies for raising standards, the project will finance local specialized consulting services to help **25 SMEs** define the garment manufacturer model and their strategy for forging links with the wider apparel market. From the **activity standpoint**, the component will promote: (i) modular workshops, each performing one of the four basic garment-making activities (cutting, assembly, finishing and pressing); (ii) integrated workshops carrying out the full package. From the **organizational structure standpoint**, the project will promote SMEs that are: (i) existing joint-stock companies; (ii) joint-stock companies that have been consolidated through merger of existing workshops and/or microenterprises; (iii) worker-owned enterprises; and (iv) cooperatives and pre-cooperatives.
- 3.11 **Business training.** Once the strategies have been defined, SMEs will be provided with business training services to achieve the targets set in their strategic plans. Technical assistance will be provided to help entrepreneurs develop the ability to commit their employees and partners to meeting the standards, and also to retain staff and increasing the overall performance of participating firms. Some **50 SME entrepreneurs** and 800 members of cooperatives or worker-owned businesses are expected to benefit from this activity.
- 3.12 **Dissemination of SME sponsorship.** The executing agency will organize a seminar to encourage SMEs to make concerted use of ACF firm machinery on a second and third shift basis, and to disseminate commercial relation models and know-how. The aim will be for at least **25 SMEs** to find sponsors among ACF firms.
- 3.13 **Certification of SMEs under agreed standards.** This activity will aim to certify standards in terms of organization and production throughout project execution, as agreed in the standard defining activity. This will enable the coordinating unit at all times to know and be in a position to publicize the levels achieved by at least **20 participating SMEs**. In this way, the dissemination of information on standardized SME garment manufacturers will encourage large ACF firms to approach them with a view to contract.

3. Component III. Strategic and commercial linkage of garment manufacturers (MIF US\$72,000)

- 3.14 This component will aim to achieve effective linkage between the standardized firms (i.e. component II beneficiaries) and market channels. The component will provide technical assistance for strengthening 50 participating SMEs that wish to link up with other small enterprises or larger firms, to gain access to garment-making businesses and marketing channels. While component II will be

implemented through individualized consulting services for each participating microenterprise or SME, this one will be conducted through central advisory services provided by the coordinating unit. In many cases these will be similar for several firms. This component envisages the following advisory activities to be provided by the coordinating unit.

- 3.15 **Dissemination of supply of services.** This will include two activities: (i) **incorporation of existing garment-making SMEs** into the group dynamic; and (ii) **marketing** of production, i.e. the search for new garment manufacturers to undertake maquila activities, followed by the engagement of brokers to distribute existing demand among ACF firms. Some **50 SMEs** are expected to be covered altogether, along with the 26 ACF garment manufacturers.
- 3.16 **Development and monitoring.** This will include the following activities with **30 SMEs**: (i) **fine-tuning of operating schemes**: the coordinating unit will advise participant SMEs on whether or not to add new productive processes to their value chain. In addition, given foreseeable constraints in terms of physical resources, especially plant and machinery, the coordinating unit will provide support in the initial use of installations belonging to established ACF garment manufacturers, through a second or third shift arrangement; (ii) **logistic coordination**: this activity will provide participating SMEs with ways to respond to variations in demand for output, product type, or the physical demand situation in their hinterland. The coordinating unit will provide human resource coordination services to enable firms needing temporary workers, or worker-owned enterprises to respond flexibly to a large order in conformity with Colombian legislation; (iii) **purchase management**: procurement of current and investment goods; and (iv) **management of commercial chains**: in carrying out this activity, the coordinating unit will monitor fulfillment of participating firms' strategies, and the management, control and monitoring of commercial agreements between participant SMEs and ACF garment manufacturers and institutions. The importance of this activity stems from the fact that the marketing of products or services will be done by ACF entrepreneurs that have long-standing experience in the international market, taking advantage of their market channels and niches. In addition, meetings, workshops, trade fairs and marketing programs will be held to promote commercial intermediation for the standardized firms.
- 3.17 **Joint policies.** The coordinating unit will provide central advisory services on issues where the 30 SMEs can implement joint action policies and where economies of scale can be obtained: (i) **accountancy and fiscal advice**: administrative management of firms, including accountancy, payroll, payment of taxes; (ii) **advisory services in labor management**: relating to dispute settlement and interpretation of legal statutes, application of the labor regime, and adequate social development of the firm; and (iii) **promotion of social services**: (childcare, pre-school, disability and old age).

IV. PROGRAM EXECUTION

A. Executing agency

- 4.1 The project's executing agency and manager will be Corporación Universitaria Minuto de Dios (UMD). The Alianza Cosiendo el Futuro (ACF) will act as the leading partner channeling support from the public, social and private sector.
- 4.2 The UMD is a private not-for-profit corporation, engaging in university and professional training activities. One of its major strengths is its ability to run highly complex projects requiring collaboration from both public and private bodies. This has enabled it to develop a project directorship department. Activities carried out by UMD include planning, arranging funding, management and implementation of reconstruction projects in coffee-belt areas hit by the earthquake, together with production of low-income housing in various areas of the country, family and microenterprise credit and the creation of technical schools.
- 4.3 UMD has had direct experience with the garment sector through its relation with MD Confecciones, a private non-profit garment enterprise, which also belongs to Corporación Minuto de Dios. The relation with MD Confecciones has enabled UMD to take part in the training of garment-making operatives, and in designing training programs. MD Confecciones operates a training center in Bogotá. UMD has an advantage over MD Confecciones, namely its experience in project management.
- 4.4 As an efficient unit with execution capacity, UMD was asked to act as technical secretariat for the coffee belt's Alianza Cosiendo el Futuro (ACF). The latter was set up in 1999 with a view to restoring and improving the quality of life of people made homeless by the coffee-belt earthquake. As mentioned above, ACF has major participation from the public and private sectors; its membership can be consulted in the technical file. A complementary ACF program will provide support in managing investment capital and financing for new firms requiring this. For implementation of this component, ACF will receive technical assistance from internationally recognized experts in company formation. During the project there will be no legal link between the Bank and ACF.
- 4.5 The National Federation of Coffee Growers (FNC) and several ACF garment manufacturers, together with the Vida and Futuro foundations, the Luker Foundation, and government bodies represented in ACF, have all indicated to the Bank that they consider UMD a suitable body to act as ACF coordinator and promoter, and as executing agency for projects arising in the ACF framework, such as this one.

B. Implementation mechanism

- 4.6 **Responsibility for execution.** For project execution, a **coordinating unit** will be created within UMD, to be responsible for coordination of actions, management and oversight of project activities, and budgetary management through established procedures. The coordinating unit will be required to present accounts and administrative and technical reports to the Bank and to the UMD executive board. It will consist of a director-manager, a garment manufacture technician and a multi-function assistant. The unit will receive accounting and administrative support provided by the corresponding UMD departments.
- 4.7 With leadership from the project's director- manager, the general mission of the coordinating unit will be to administer the project and facilitate execution in accordance with this document. The unit will also: (i) manage project funds in accordance with the operating regulations and in conformity with Bank policies and procedures; (ii) draw up work plans; (iii) monitor objectives and actions; (iv) maintain close links with firms in the sector, through trade associations and directly with the firms themselves, whether direct beneficiary SMEs or larger garment manufacturers expected to join the project; (v) develop close links with other ACF organizations. The coordinating unit will also draw up a work plan for activities in the first year of the project, including six-monthly quantitative and qualitative performance targets; (vi) maintain an up-to-date register of consultants offering productive and logistic advisory services for SMEs, as envisaged in component II; and (vii) provide direct technical assistance as envisaged in component III.
- 4.8 **Operating mechanism.** The coordinating unit will execute the project in accordance with its operating regulations. These explain the project's modus operandi and have been reviewed by the project team and approved by UMD. For execution of the training activities in the first component, workshops will be held in Pereira, Armenia and Manizales, following the methodological recommendations made by the consultants hired for this purpose. For supervision of execution in the second and third component, UMD will set up a project directing board (JDP) which will meet on a monthly basis to ensure overall commercial consistency among the various SME strategies to be promoted.
- 4.9 The JDP will mark out the procedures to be followed under the project's operating regulations; it will also prioritize project activities, control and evaluate their execution, and be accountable for its actions to the ACF and the other bodies providing funds to the project. The JDP will consist of two members of the UMD, two members of the business community represented in ACF, the director of the coordinating unit, and an observer with a voice but no vote from the foreign trade ministry. Establishing the JDP is justified, because the support provided to SMEs by the project needs to be made consistent with a sustainable growth strategy for the sector.

- 4.10 **Cost recovery mechanism.** Beneficiaries will make payments when they receive training and consulting services in the project. Charges will increase over time, and can be adjusted on an annual basis by the UMD, in accordance with: (i) the payment capacity of participating beneficiaries and SMEs; (ii) market prices for equivalent services in the coffee-belt garment sector; (iii) the sustainability plan for services offered by the project. The policy of payments for services is contained in the operating regulations, which has been presented to the Bank and will be updated every year. The operating regulations give details on the costs and prices of services offered by the project both to individual beneficiaries and to SMEs, and the charging policy to be used. Payments made by beneficiaries are expected to cover 19% of costs, on average, during the three years of the project.

C. Execution and disbursement periods

- 4.11 Project execution will last 36 months, with disbursements extending over 42 months. Project funds will be disbursed through a revolving fund, equivalent to 10% of the MIF contribution.

D. Accountancy and audit

- 4.12 **Accountancy.** The executing agency will establish and maintain proper financial accounts, supported by internal control and filing systems, making it possible to identify the source and utilization of program funds. The accounting system will be organized to provide the necessary documents, facilitate verification of transactions and make it possible to prepare financial statements and reports on a timely basis. Project records will be filed in such a way that: (i) amounts received from different sources can be identified; (ii) they report on project expenses in accordance with an accounts table previously approved by the Bank, distinguishing between MIF contributions and funds arising from other sources; and (iii) they include the details needed to identify goods acquired and services contracted, and the uses made of them. The executing agency will also open separate and specific bank accounts for handling the MIF contribution and local counterpart funding. Lastly, the executing agency will process disbursement requests and their respective expense justifications in accordance with Bank disbursement rules.
- 4.13 **Financial audits.** Within 90 days following the final project disbursement, the executing agency will prepare, and present to the Bank, closing financial statements relating to the MIF contribution and local counterpart funding. An independent firm of auditors acceptable to the Bank will audit these statements. The costs of audits will be funded out of the MIF contribution, in accordance with Bank procedures.

V. COSTS AND FINANCING

A. Costs

- 5.1 The project budget is estimated at US\$1.85 million, of which US\$1.1 million (59.5%) will be provided by MIF in non-reimbursable form, with the balance of US\$750,000 (40.5%) being provided by Corporación Universitaria Minuto de Dios. The detailed budget, broken down by component and year, is contained in the technical file. A summary of the main project cost and financing items is given below. At least 50% of the UMD contribution will be made in cash.

CATEGORIES (US\$)	MIF	UMD	TOTAL
1. Development of labor skills	686,000	680,000	1,366,000
a. Consulting and technical assistance services	50,000	0	50,000
b. Training	636,000	365,000	1,001,000
c. Equipment	0	315,000	315,000
2. Productive and logistic advisory services	260,000	48,000	308,000
a. Consulting and technical assistance services	210,000	14,000	224,000
b. Training	50,000	33,000	83,000
c. Other	0	1,000	1,000
3. Strategic and commercial linkage	72,000	0	72,000
a. Consulting and technical assistance services	72,000	0	72,000
4. Evaluations and audits	50,000	0	50,000
SUBTOTAL	1,068,000	728,000	1,796,000
6. Contingencies (3%)	32,000	22,000	54,000
TOTAL (US\$)	1,100,000	750,000	1,850,000
Percentage	59.5%	40.5%	100.0%

B. Financial sustainability

- 5.2 Charges made to beneficiaries will rise steadily during project execution, making it possible to continue activities for which the project has stimulated new demand or for which demand remains unsatisfied. By the third year of execution, it is hoped to recover an average of 25% of the direct costs of services (19% on average over 3 years).
- 5.3 By conclusion of the project, the aim is to have developed a critical mass of 50 SMEs actively linked to the textile chain, and requiring support in running their operating schemes, as well as in purchase management, productive linkages, and labor, accounting and fiscal management. Of these, a select group of about 20 SMEs certified according to international standards will continue demanding specific support to continuously improve their indicators. It is therefore expected that many component III activities, as well as some from component III, should

generate sufficient income to maintain an operating structure that will eventually achieve full sustainability. In the effort to achieve sustainability, the coordinating unit could extend the central advisory services of component III to SMEs in other sectors. Component III will recover 45% of costs in the third year, while component II is expected to recover 35%.

- 5.4 In component I, by the end of the project it is expected to have a validated curriculum and training methodology that is consistent with industry requirements. Although the project may not continue training operatives on a massive scale, it could generate income by disseminating both elements among other training entities both in the coffee belt and elsewhere in Colombia.
- 5.5 With a view to establishing a definitive plan for continuing with sustainable activities after project execution, based on performance indicators and recovery of real costs, the final project evaluation will make recommendations to the UMD on the following: (i) which activities can continue on a sustainable basis; (ii) which activities will continue to have demand and could become sustainable at a later date, so they could continue operating with additional subsidies or grants that the UMD receives from its ACF partners; and (iii) which activities ought not to remain in the UMD project portfolio since they have no prospect of viability and could be more effectively distributed to other organizations in the coffee belt.

VI. JUSTIFICATION, BENEFITS AND RISKS OF THE PROJECT

A. Project benefits and impact

- 6.1 **Justification.** The garment sector, like other industries in the coffee belt, was hit by the 1999 earthquake that disrupted communications, supplies and labor availability. At the present time, the apparel sector in Colombia demands sizeable amounts of labor with very specific skills. Domestic policies to increase garment exports (especially to the United States) justify developing a coordinated and sustainable model for the provision of training and technical assistance services, aimed at increasing the competitiveness of the sector in the local area, and which subsequent national policies can extend to other productive clusters in the country.
- 6.2 The project is justified from the viability standpoint, because ACF entities and firms, including the Corporación Universitaria Minuto de Dios, have broad experience in areas such as training, garment manufacture, business management, and the marketing and sale of clothing products. This project will support the private-sector initiative to provide stable sources of employment and strengthen the business fabric of the garment sector in the coffee belt, by connecting operatives to marketing and export firms.

- 6.3 From the operating point of view, the presence of Corporación Universitaria Minuto de Dios will guarantee efficient management and appropriate resource use. It will also help obtain the expected results, by monitoring a work plan containing performance indicators.
- 6.4 **Benefits.** This project will increase the availability of operatives, supervisors and trainers with the skills and efficiency levels the sector requires. This will contribute to the general competitiveness of the textile sector and increase employment within it. The project will also help consolidate existing garment-manufacturing SMEs and improve the viability of new ones, both through technical advisory services and through opportunities for commercial linkage with larger firms and the market. This will have a positive impact among the region's SME garment manufacturers.

B. Beneficiaries

- 6.5 The project's beneficiaries are mainly microenterprises and small and medium-sized garment-making businesses in the department of Caldas, Risaralda and Quindío, whatever their legal form. The project may also support cooperatives and worker-owned enterprises with over 200 employees but assets of less than US\$750,000. In this document, the generic term "SME" encompasses the latter type of enterprise.
- 6.6 The project will directly benefit 3,000 individuals, mostly unemployed, who will be trained as operatives in the garment industry; and a further 1,000, mostly already linked to the sector, who will become trainers, supervisors or middle managers. About 75% of operatives, technical staff and supervisors are expected to join the clothing sector through existing or newly created garment-manufacturing firms.
- 6.7 The project will also benefit 75 SMEs through productive and strategic advisory services and support in forging links with other firms in the sector; and a further 26 established ACF garment manufacturers (see annex 3), which will also absorb operatives trained through the project.

C. Risks

- 6.8 The largest risk of the project is that the demand for training could prove less than expected. To mitigate this possibility, UMD is obtaining commitments from ACF garment manufacturers to absorb operatives and middle managers trained by the project. In addition, component III will disseminate the project's successful experiences and promote commercial linkages to enable established ACF firms to accept larger orders.
- 6.9 A second risk stems from the complexity of project implementation, given the diversity of actions to be carried out, the level of interdependency between activities in the first and second components, and the need for the coordinating unit to stay in permanent contact with the garment industry in order to keep its actions

- relevant and achieve the performance targets. To mitigate this risk, consulting services in the first and second components will be provided by a single firm, which will be responsible for ensuring consistency between the different activities – basically between training models for operatives and supervisors, and the quality and efficiency standards to be defined for the participant SMEs.
- 6.10 A third risk is that the SMEs participating in the second and third components may not have the economic resources necessary for the technological adaptation required by process standardization. To mitigate this risk, the UMD will maintain close links with ACF entities in order to encourage investments in the SMEs that are created or consolidated with project funding.
- 6.11 A fourth risk is that the socioeconomic situation may be undermined by violence. This would impair the permanency of existing market opportunities and labor availability, by encouraging skilled workers to emigrate and seek employment in the garment industry in other countries such as Ecuador, Peru, Spain and the United States. To mitigate this risk, the project will provide incentives for the strengthening of existing and new SMEs, the latter under the worker-owned and cooperative model. This will help attract new profitable investments into the garment sector, thereby bolstering employee commitment and reducing the incentives for firms and workers to move elsewhere.

D. Committee on Environment and Social Impact

- 6.12 The Committee on Environment and Social Impact (CESI) reviewed and approved the project proposal at its meeting of 11 January 2002. In response to CESI suggestions, UMD has built the following policies into the operating regulations: (i) all project training and technical assistance actions will promote activities and production techniques that are socially and environmentally sustainable; (ii) for existing firms and others to be created, workplace design will take workers' health into account, and provide a comfortable working environment; and (iii) the coordinating unit will conduct an open and competitive process for selecting beneficiaries and trainers, promoting participation by female beneficiaries or enterprises run by women. UMD progress reports will record the extent to which these policies are complied with in project execution.

VII. PROJECT MONITORING AND EVALUATION

- 7.1 **Monitoring.** The UMD will prepare six-monthly progress reports, documenting the activities carried out during the previous semester and including a work plan and disbursement calendar for the following period, in accordance with the project's logical framework (see annex 1). The Bank's Country Office in Colombia will use these to monitor progress in implementation and to prepare a project finalization report, during the three months following the final disbursement.

- 7.2 Progress reports will pay special attention to the following: (i) quality and compliance with project objectives (logical framework); (ii) status of the business plan and project budget; (iii) financial performance of the project; (iv) number and profile of beneficiaries catered to; (v) number, size and type of firms benefited by the project; (vi) other activities; and (vii) problems encountered and steps taken to solve them.
- 7.3 **Evaluation.** The Bank will hire individual consultants to perform a midterm and a final evaluation. During project execution, the UMD will continually update the degree of compliance with the performance indicators set out in the logical framework (annex I). Both of these will be carried out by an international consultant, specialized in: (i) labor training, preferably in the textile sector; (ii) SME formation and strengthening; (iii) advisory and consultancy projects. The mid-term evaluation will be performed when 50% of Bank funding has been disbursed. It will assess compliance with the project's work plan, programmed activities and logical framework performance indicators, as well as the social and environmental impact of the activities. The final evaluation will be conducted when 90% of Bank funding has been disbursed, analyzing the following: (i) degree of compliance with project activities, in relation to the logical framework indicators set; (ii) activities that are sustainable, those that could become sustainable at a later date, and activities that have no prospect of sustainability whatsoever; (iii) the project's social and environmental impact; and (iv) lessons learned and best practices. If the Bank finds these evaluations satisfactory, it will authorize the UMD to continue committing funds. Otherwise, the latter will be required to make necessary adjustments before the Bank authorizes a resumption of disbursements.

VIII. SPECIAL CONTRACTUAL CONDITIONS

A. Conditions precedent to disbursement

- 8.1 As conditions precedent to disbursement, UMD will present the following to the Bank's satisfaction: (i) a work plan for activities to be undertaken in the first year of the project, including six-monthly quantitative and qualitative performance targets, and assumptions for their fulfillment; and (ii) evidence of having set up the coordinating unit.

B. Status of project preparation

- 8.2 The design, budget and activities envisaged have been prepared in conjunction with project participants, assisted by the Bank team. The availability of local funding, both in cash and in kind, was negotiated and documented by the executor. In January 2002 the final versions of the following had already been prepared: detailed budget; terms of reference for the coordinating unit, beneficiaries in each component and activity; timetable of activities, and operating regulations. The

UMD has training sites located. The coordinating unit will be based in Pereira, the largest city in the coffee belt. The project's operating regulations have been prepared and approved by UMD and can be consulted in the project technical file.

LOGICAL FRAMEWORK MATRIX
(TC-01-06-00-4-CO)
Business Linkages in the Garment Industry

Narrative summary of objectives	Indicators	Means of verification	Assumptions
Aim			
To encourage investments in the garment-making sector located in the coffee belt, by improving the productivity of human resources and increasing commercial linkages between garment manufacturing firms that achieve international standards.	<ul style="list-style-type: none"> Growth of garment sector exports in the coffee belt. Greater share in garment sector exports for the Departments of Quindío, Risaralda, Caldas and Valle account for a greater percentage of garment exports. Increased employment in the coffee-belt garment sector. 	<ul style="list-style-type: none"> Company register. Indicators of the Ministry of Foreign Trade and Proexport Colombia. 	<ul style="list-style-type: none"> International agreements facilitate an increase in exports to the United States The domestic garment manufacturing sector has the capacity to respond to the evolution of demand for production.
Purpose			
To establish a coordinated and sustainable process for delivering training and technical assistance for workers and firms in the garment sector operating in the coffee belt.	<ul style="list-style-type: none"> The 26 ACF firms absorb at least 1,800 operatives trained by the project. At least 20 garment manufacturing SMEs responding to sectoral needs in terms of standardization and certification of processes. 	<ul style="list-style-type: none"> Project coordinating unit manages and documents project activities. 	<ul style="list-style-type: none"> Firms created during the project, or those joining it, operate under standards certified by the coordinating unit.
Components			
Development of labor and business skills (Operational and technology training for 3,000 operatives and 1,000 middle managers).	<ul style="list-style-type: none"> Training provided for 4,000 people (3,000 operatives and 1,000 middle managers) in techniques and management of garment manufacturing, through a skills-based training system. 	<ul style="list-style-type: none"> Training system validated by firms. Training controlled through student enrollments and final evaluations. Index of firms' satisfaction with the training system used. 	<ul style="list-style-type: none"> Staff have access to training. Availability of a scholarship system to encourage enrollment.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
Production advice to garment-making SMEs.	<ul style="list-style-type: none"> At least 20 standardized firms with certified processes in the garment sector located in the coffee belt. Firms participating in this project agree on a standardized model and adhere to it. 30 SMEs receive support in improving processes for at least two years. 	<ul style="list-style-type: none"> The standardization model. Documentation of the standardization process in each firm. Certificate of standardized firms. 	<ul style="list-style-type: none"> The standardized firm model is adapted to meet the needs of enterprises of all sizes and all activities in the sector.
Strategic and commercial linkage of garment making firms.	<ul style="list-style-type: none"> After six months of project execution, a coordinating unit exists that brings together the interests of participating firms and arbitrates between them. 	<ul style="list-style-type: none"> Minutes of coordinating unit meetings. 	<ul style="list-style-type: none"> Interest in association shown by firms participating in the project.
Activities			
Development of labor skills and business competencies.			
<p>1. Curricular and training model development:</p> <p>(Includes: Identification of professional concepts in the sector, labor skills demanded and training processes.)</p>	<ul style="list-style-type: none"> Study made of methodologies used for training operatives and middle managers. Methodology agreed by garment making firms in the coffee belt that participate in the Alliance. 	<ul style="list-style-type: none"> Curricular design document in the garment sector complete. 	<ul style="list-style-type: none"> Productive sector collaborates in identifying professional concepts. Training sector has skilled staff available to undertake curricular design.
<p>2. Development and dissemination of operative selection model.</p> <p>(Includes: Evaluation of demand for trained staff by each unit identified, adaptation of available training supply, implementation of selection process.)</p>	<ul style="list-style-type: none"> Document available with required technical skills and attitudes identified, described and verified by the productive sector. Surveys within firms Data on staff turnover Market trends All firms' training needs find solutions in training institutions participating in the project. 	<ul style="list-style-type: none"> Project execution report. Document containing demand study. Training demands can be centralized in the project coordinating unit. 	<ul style="list-style-type: none"> Productive sector collaborates in identifying skills. Training sector has skilled staff available to design curriculum. Demand for skilled labor by firms is sustained at current levels or higher. Participating entities have the flexibility needed to rapidly adapt supply of training.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
3. Implementation of training (Includes: Evaluation of training model)	<ul style="list-style-type: none"> • Outputs by the end of the project to include: • 3,000 operatives and 1,000 middle managers for the garment sector. • Modifications proposed by the productive sector. 	<ul style="list-style-type: none"> • Certificate of attendance at courses. • Centralize these in the project coordinating unit through satisfaction surveys. 	<ul style="list-style-type: none"> • Existence of training supply in training centers located in the coffee belt. • Training or external consulting services can be obtained. • Firms in the area show practical commitment to collaborate in the creation and maintenance of training centers. • Firms evaluate staff hirings that have received training from the program and report their findings.
4. Labor linkages	<ul style="list-style-type: none"> • 1,800 operatives achieve 60% efficiency. • 400 operatives attached to new SMEs promoted by ACF. • 500 trainers and middle managers trained by the project are permanently attached to firms in the sector, or involved in training or consultancy. 	<ul style="list-style-type: none"> • Coordinating unit records, surveys of established ACF firms and beneficiary SMEs. 	<ul style="list-style-type: none"> • Established garment manufacturing firms remain linked to ACF. • The 10 SMEs promoted by ACF start operations.
Production and logistic advice for microenterprises and SMEs			
5. Definition of SME garment making standards.	<ul style="list-style-type: none"> • Definition and consensus on production standards applicable to cutting, sewing, finishing and ironing of cloth. • Definition of standards for 30 SMEs 	<ul style="list-style-type: none"> • Coordinating unit records 	<ul style="list-style-type: none"> • Existence of 30 firms with capacity and interest in achieving standards.
6. SME strategic definition.	<ul style="list-style-type: none"> • 25 SMEs define their garment manufacturer business model and their strategy for forging links with the clothing market. 	<ul style="list-style-type: none"> • Coordinating unit records 	<ul style="list-style-type: none"> • At least 25 firms have begun to monitor their standards and show interest in defining strategies.
7. Business training.	<ul style="list-style-type: none"> • 50 entrepreneurs and SME managers receive business training. 	<ul style="list-style-type: none"> • Coordinating unit records, surveys of established ACF firms and SMEs. 	<ul style="list-style-type: none"> • The 10 SMEs promoted by ACF start operations.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> 800 operatives attached to new SMEs trained as partner-operatives. 		
8. SME sponsorship.	<ul style="list-style-type: none"> Informational and motivational meetings with at least 50% of firms created in this project. 25 SMEs sponsored by ACF firms. 	<ul style="list-style-type: none"> Coordinating unit runs or organizes meetings. 	<ul style="list-style-type: none"> Established garment-making firms remain linked to ACF.
9. Certification of firms complying with standards.	<ul style="list-style-type: none"> Certification of at least 20 SMEs under defined standards. 	<ul style="list-style-type: none"> Coordinating unit certifies or organizes standardization. 	<ul style="list-style-type: none"> Firms are motivated in favor of standardization. Standardized firms show measurable profitable results.
Technical assistance for strategic and commercial linkage of garment manufacturers			
10. Dissemination of supply of services.	<ul style="list-style-type: none"> Dissemination of information and actions to be carried out in related firms encompasses 50 SMEs and the 26 ACF garment manufacturers. 	<ul style="list-style-type: none"> Database used is the register of firms attached to the project. 	
11. Development and monitoring of inter-enterprise activities.	<ul style="list-style-type: none"> 30 SMEs receive support for: <ul style="list-style-type: none"> Fine-tuning their operating systems; Logistic schemes to respond to orders; Purchase management; Management of commercial chains. 	<ul style="list-style-type: none"> Coordinating unit will coordinate activities. Coordinating unit reports. 	<ul style="list-style-type: none"> Activities being offered are demanded by firms. Firms receive information on the activities to be carried out and take part in decisions.
12. Central services for joint policies aimed at improving linked firms.	<ul style="list-style-type: none"> 30 SMEs receive: <ul style="list-style-type: none"> Accountancy and fiscal advice. Assistance in labor management. Promotion of social services: (day care, pre-schools, disability and old age). 	<ul style="list-style-type: none"> Coordinating unit will coordinate activities. Coordinating unit reports. 	